

Roadmap to Recovery

Five-Year Financial Plan

Councilmember Carl DeMaio

The City's Current Liabilities are Structurally Unsustainable

- **No Tax Increase Will Be Big Enough...**
- **No Service Cut Deep Enough...**
- **Unless we reduce these two liabilities:**
 - **Pension**
 - **Retiree Health Care**

Destination of the Roadmap

Balance the FY 12 budget...

- ...without cuts to police and fire services

Achieve **long-term financial sustainability**

- ...by embracing new approaches to delivering city services
- ...by restructuring city liabilities (pension & retiree health)

Financial Outcomes Over 5 Years

\$87.3 Million in FY 12 Savings

\$737 Million
Savings in Retiree Health and Pension Costs

\$304 Million
*Savings from Reorganization and
New Delivery Models*

Borrowing from Bankruptcy

- Bankruptcy is not the solution – but some of its elements can be incorporated into a recovery plan
- “Profit” test for city government is our ability to sustain core neighborhood services
- 5 year spending plan with spending and labor cost caps and accountability targets
- Imposed on city leaders by a vote of the people (Ballot Measure Process)

Proposed Ballot Measures

1. 5 Year Plan: Spending Caps and Labor Cost Caps

- Any surplus would be distributed in the following manner:
 - 25% to service restorations
 - 25% to infrastructure projects
 - 50% to debt reduction

2. Pension Reforms

- Voters to mandate the entire package of pension reforms – and require simultaneous implementation to achieve maximum effect

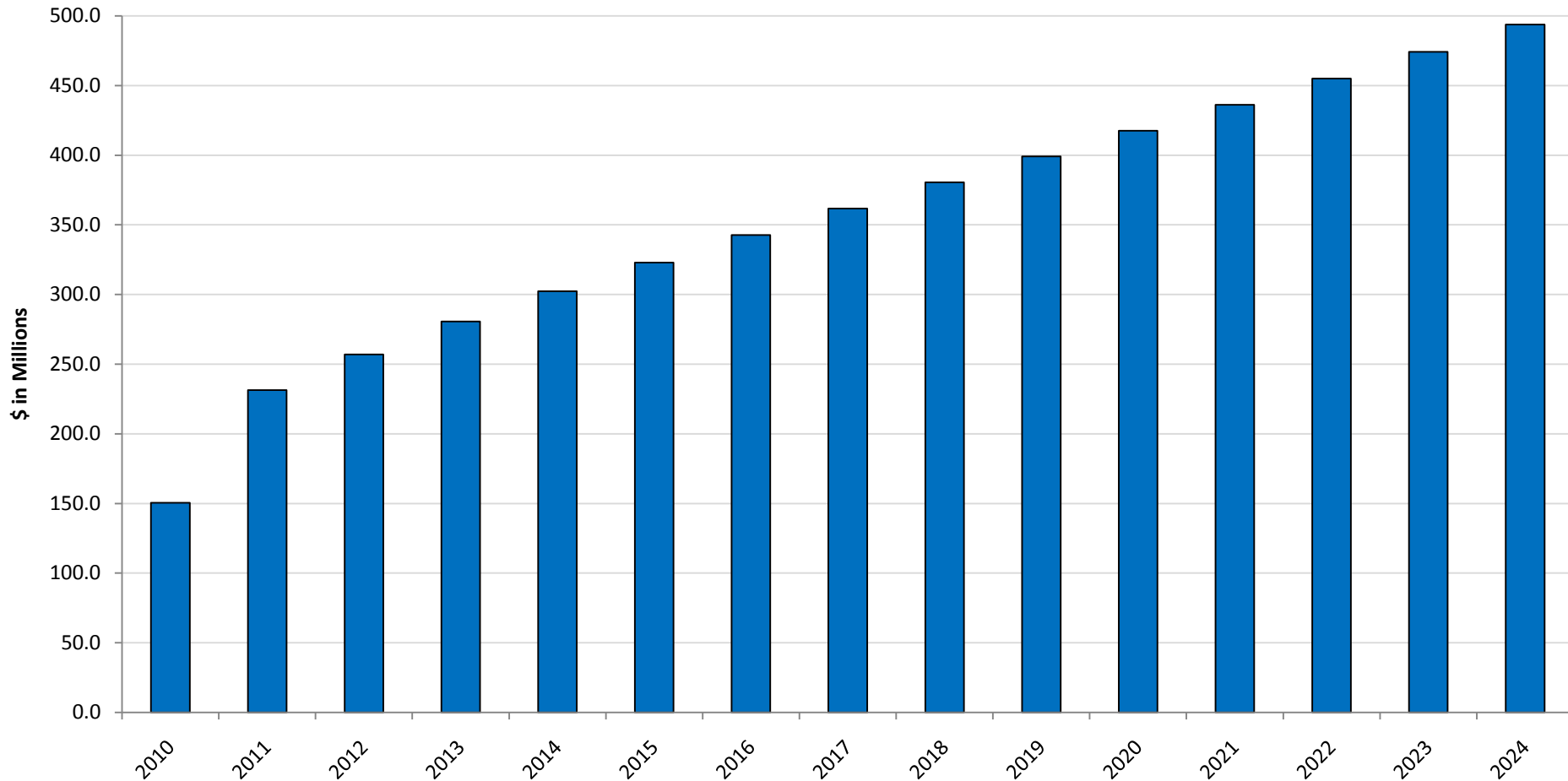
3. Neighborhood Infrastructure Lock Box

- Any revenues above 2% growth per year would be placed in lock-box

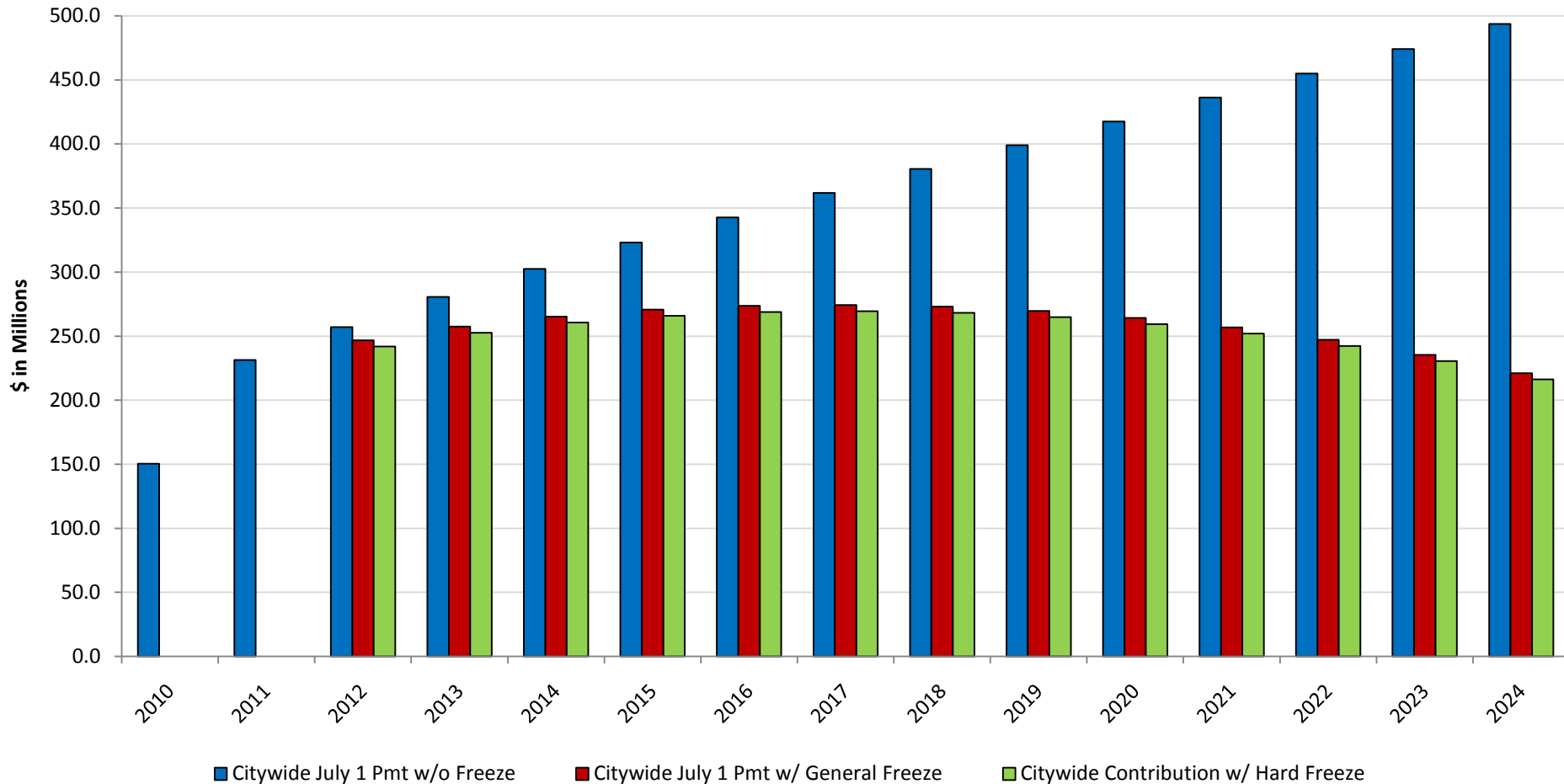
Five Year Spending Plan

	FY 12	FY 13	FY 14	FY 15	FY 16
Current General Fund Forecast	\$1,154.2	\$1,180.1	\$1,204.6	\$1,216.4	TBD
Current Projected Deficit	-\$72.4	-\$68.5	-\$69.9	-\$48.1	TBD
Proposed General Fund Cap	\$1,070	\$1086.6	\$1087.1	\$1,117	TBD
Public Safety Restorations	\$3	\$6	\$6	\$7	\$8
Projected Share-in-Savings Fund	NA	NA	NA	\$20.4	\$26.9
Projected Infrastructure Fund	NA	\$8.16	\$9.20	\$20.29	\$22.32
Projected Surplus	\$11.8	\$15.1	\$28.9	\$25.4	\$23.7

Projected City Pension Contributions



Recovery Plan's Projected Impact on Pension Payment



Legal Authorities to Achieve Reforms

- Roadmap Plan only relies on reforms that are legal – and completely within the city’s ability to implement
- City will “meet and confer” in good faith in labor negotiations
- All reforms can be imposed on labor unions by 5 votes of the City Council

Understanding What Drives Pension Liabilities and Costs

- Vested Formula
 - # Years of Service X % Multiplier X Highest Year (or avg. of years) Pay
- Rate of Pay is NOT Vested
 - “Pensionable Pay” can be changed by
 - Freezing base salaries
 - Reducing add-ons of “special pays”
 - Changing status of “special pays”

Major Elements of the Roadmap to Recovery

- Five year freeze in “Pensionable Pay”
- Creates conditions that incentivize city employees to “opt out” of higher pension levels into more affordable ones
 - Requires city employees to pay equal share of normal retirement costs
 - Opt-out plans will provide city employees with greater take-home pay (important given pay freeze in plan)
 - Shifts equal burden of risk for investment losses in pension fund to city employees

Major Elements of the Roadmap to Recovery

- Retiree Health Care Reforms
 - Continues health coverage for current retirees
 - Eliminates guaranteed city-funded health coverage for current employees when they retire
 - Expands defined contribution retiree health trust for current city employees
- Divesting of Landfill
- Possible divesting of Data Processing Corporation

Major Elements of the Roadmap to Recovery

- Complete Managed Competitions on 11 Functions within 14 Months
- Restores \$3 Million to Public Safety for FY 12
 - Cumulative Restoration of \$30 Million over five years
 - Up to \$8 million in annual restoration
- Create Public Safety Staffing Task Force
 - Example: Exploring re-alignment of some resources from fire trucks to ambulances

Major Elements of the Roadmap to Recovery

- Requires Performance Report Card for each City Department
- Consolidates administrative support functions; creates centralized Office of Management and Budget
- Embraces e-government to deliver services and information
 - All city employee compensation online
 - 95% of transactions online
 - City contracts online

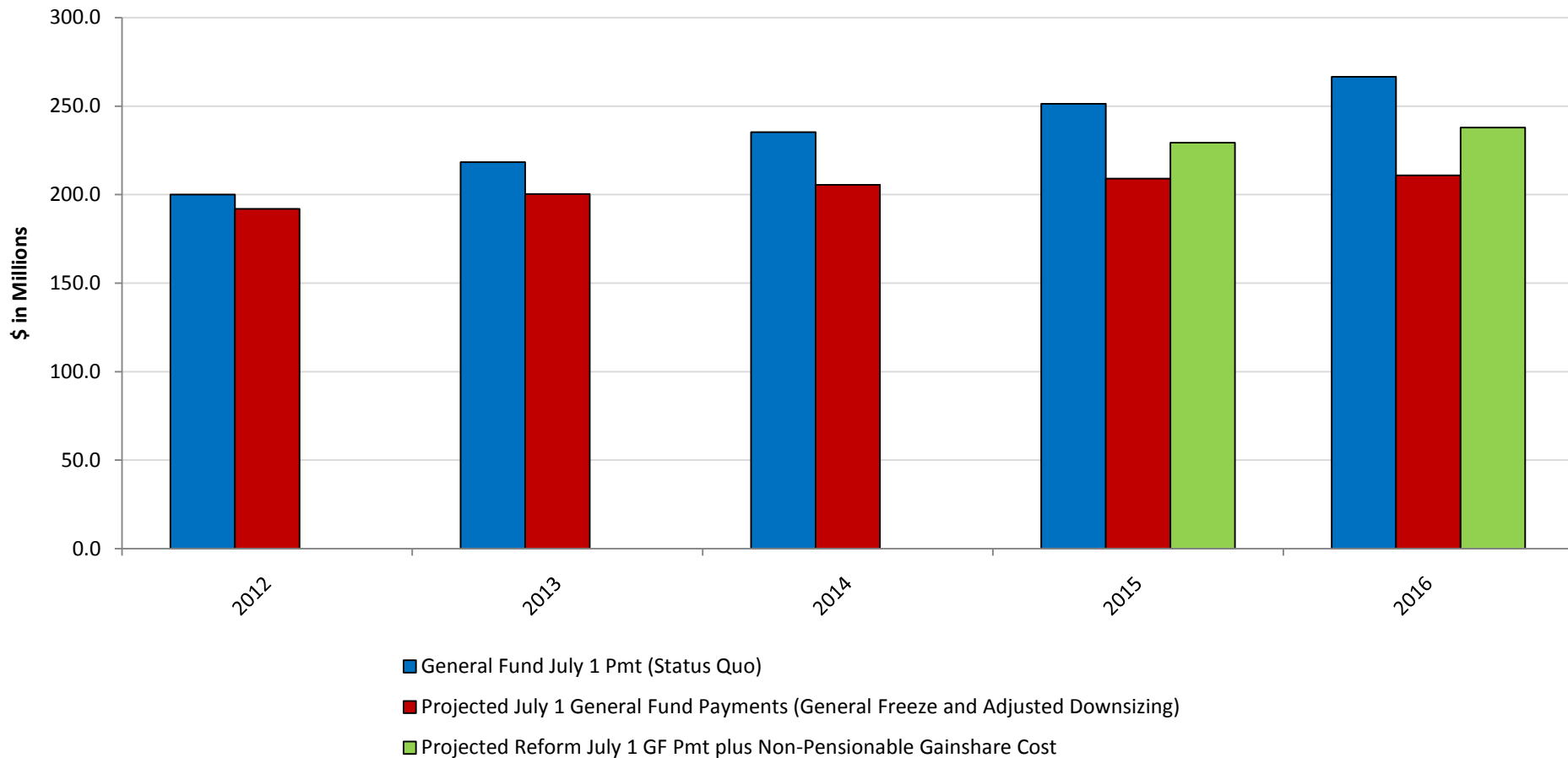
Major Elements of the Roadmap to Recovery

- Establishes Infrastructure Financing Lock-Box
- Cancels New City Hall Project
- Expanded Use of Redevelopment Agency Funds to Benefit General Fund (Debt payment; expense reimbursements; Convention Center; Petco Park)

Gain-Sharing with City Employees

- Creation of “Share-in-Savings” Fund to provide non-pensionable bonus pays in year 4 and 5 of financial recovery period (FY 15 and FY 16)
- \$40-45 million in incentive pays possible – average compensation increase of 4-6% depending on classification of employee
- City Auditor and Pension Actuary would have to verify savings for any incentive pays to be provided

Estimated Pay Freeze Impacts to July 1 General Fund Pension Contributions



FY 12 Budget Adjustments

Adding Up Savings By July 1

Major FY 12 Budget Reforms

- Managed Competition on 11 Priority Functions
(\$11.7 M)

Collection Services

Park & Rec. Maintenance (4)

Library Facility Maintenance

IT

Fleet & Auto Maintenance

Facilities Operations

Publishing

Street Sweeping

Major FY 12 Budget Reforms

- Salary Reductions: (\$10.6M)
 - 2% Reduction MEA, Unclassified and
 - Reform of EMT Special Pay and Admin Pay
 - 50% reduction of other MEA Special Pays
- Redevelopment Agency Debt Repayment (\$3M)
- Recovery Audits and Revenue Audits (\$1.5 M)

Major FY 12 Budget Reforms

- Mayor and Legislative Reductions (\$1.62 M)
- Streamlining Reductions: (\$7.65 M)
 - Contracts & Supplies (5%, non-Safety)
 - Mgmt. Analyst/PIO Reductions
 - Office of Special Events/TMD Revenue
 - Office of Mgmt & Budget Reorganization
- Arts & Culture Grant Reductions (\$1.8 M)

Major FY 12 Budget Reforms

- Marketing Partnerships (\$1M)
- Other Labor Cost Reductions (\$4.96 M)
 - Eliminate Mgmt. Leave and Vehicle Allowance
 - Eliminate Offsets
 - Eliminate Terminal Leave

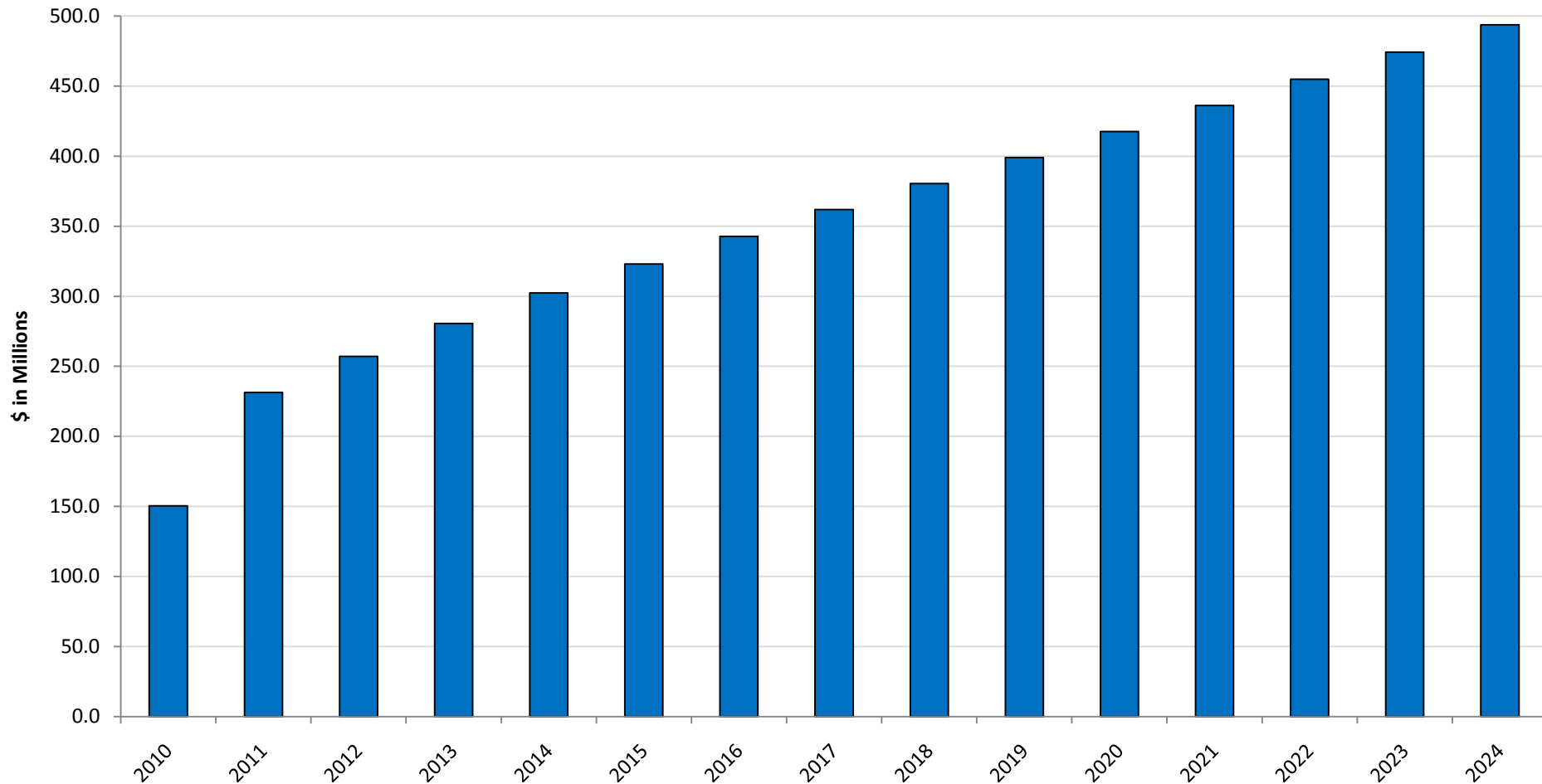
Major FY 12 Budget Reforms

- Immediate Impact of Liability Reforms (\$29.57M)
 - Previous year's general pay freeze impact on pension
 - Retiree Health Care reforms
 - Not scored: Purchase of Service Credits; Substantially-Equal Adjustments; DROP cost neutrality; SDCERS performance audit

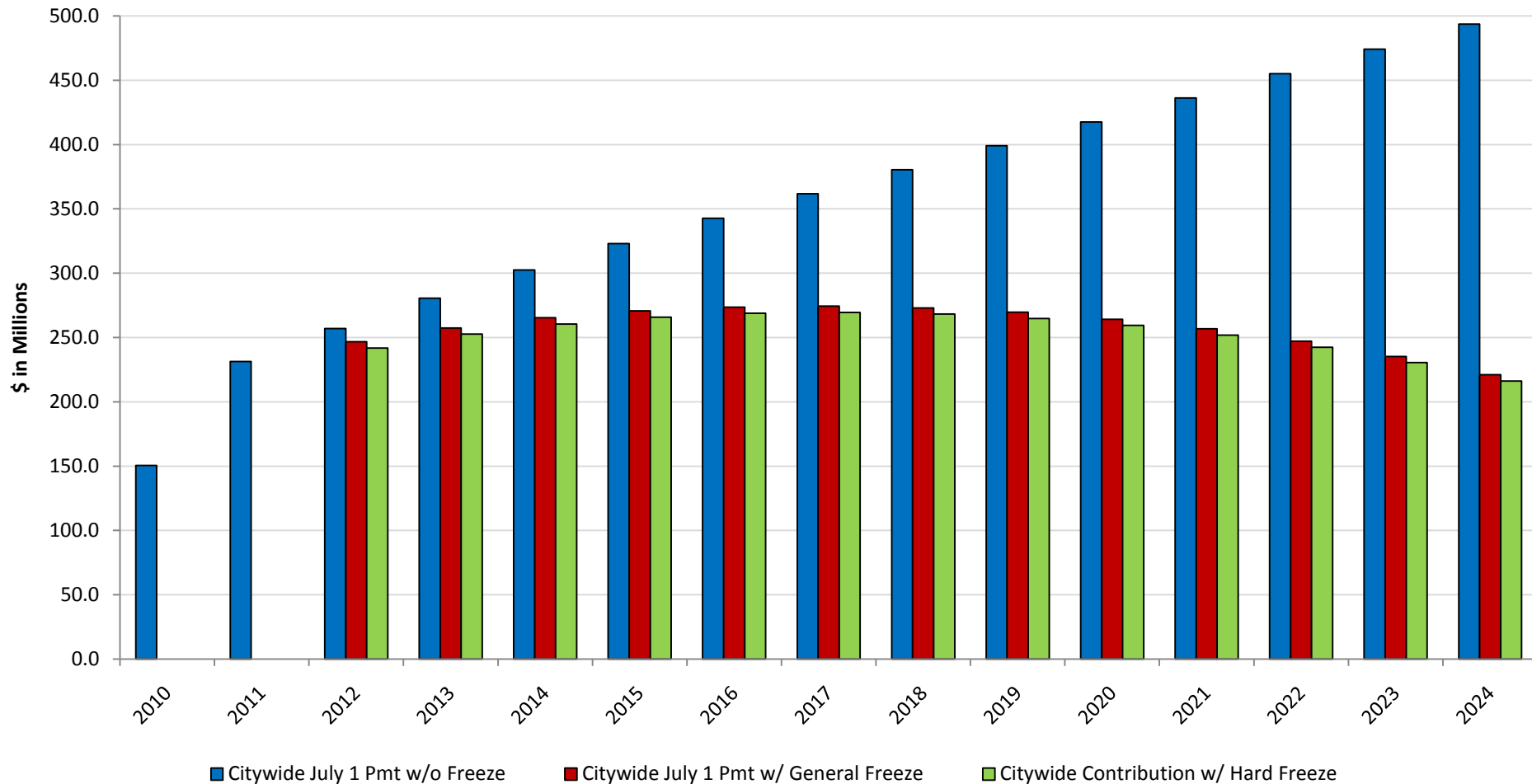
Actuarial Impacts of Pension Reforms

Long-Term Modeling by Independent Actuary

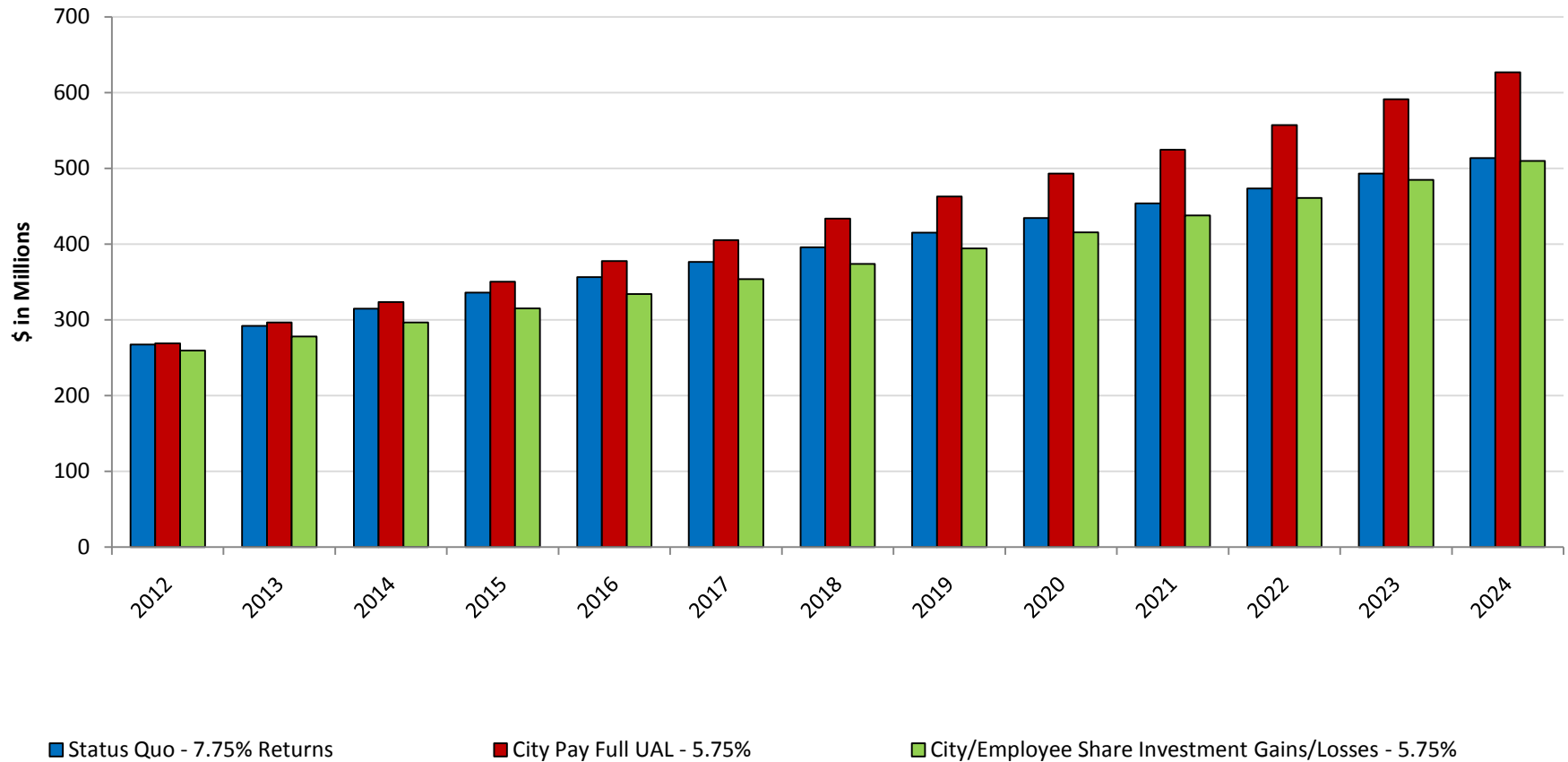
Projected Citywide Pension Contributions



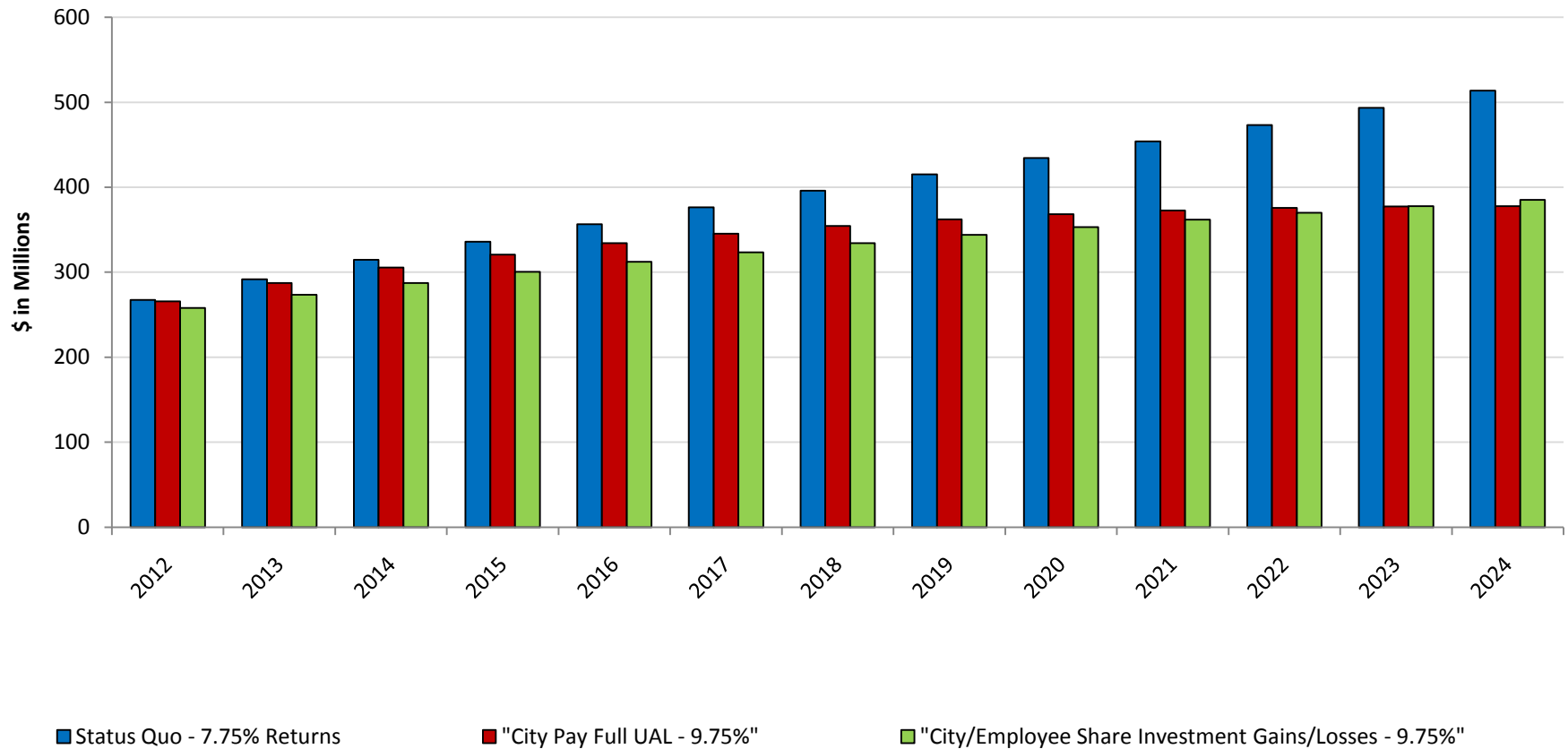
Estimated Pay Freeze Impacts to July 1 Citywide Pension Contributions



City Pension Payments Status Quo vs. Investment Gain/Loss Sharing @ 5.75% Return



City Pension Payments Status Quo vs. Investment Gain/Loss Sharing @ 9.75% Return



Impact of Downsizing and Managed Competition

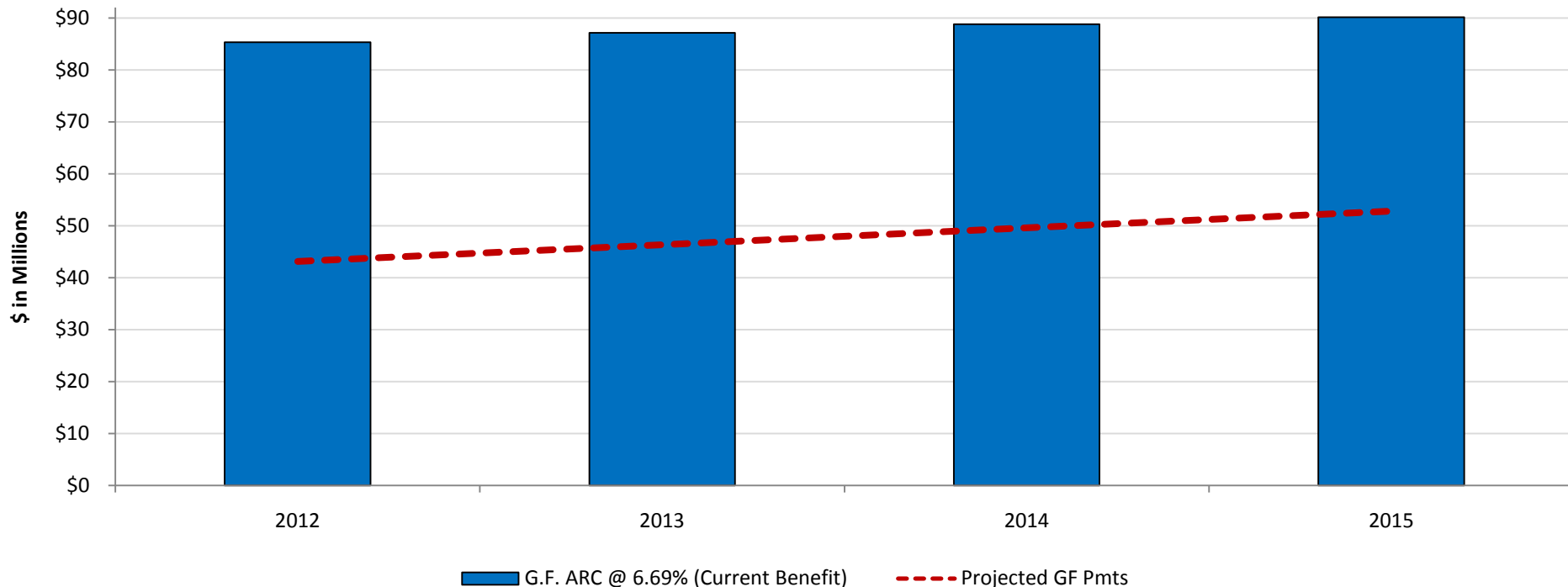
FY	Baseline Projections				10% General Reduction-in-Force (3-Year Phase-In)				Projected General Fund (Savings)
	Citywide			General Fund	Citywide			General Fund	
	Mid-Year Pmt	% of Payroll	July 1 Pmt	July 1 Pmt	Mid-Year Pmt	% of Payroll	July 1 Pmt	July 1 Pmt	
2012	267.4	45.18%	257.1	200.0	265.8	46.33%	255.5	198.8	(1.2)
2013	291.9	47.41%	280.6	218.3	289.1	49.47%	277.9	216.2	(2.1)
2014	314.6	49.14%	302.4	235.3	311.2	51.71%	299.2	232.7	(2.5)
2015	336.0	50.46%	323.0	251.3	332.5	53.13%	319.6	248.7	(2.6)
2016	356.5	51.48%	342.7	266.6	352.9	54.22%	339.2	263.9	(2.7)
2017	376.4	52.26%	361.8	281.5	372.6	55.05%	358.2	278.7	(2.8)
2018	395.9	52.85%	380.5	296.1	392.0	55.68%	376.8	293.2	(2.9)
2019	415.2	53.30%	399.1	310.5	411.2	56.16%	395.3	307.5	(3.0)
2020	434.4	53.62%	417.6	324.9	430.3	56.51%	413.6	321.8	(3.1)
2021	453.8	53.85%	436.2	339.3	449.5	56.76%	432.1	336.2	(3.2)
2022	473.3	54.01%	455.0	354.0	469.0	56.94%	450.8	350.7	(3.3)
2023	493.3	54.12%	474.1	368.9	488.8	57.06%	469.8	365.5	(3.4)
2024	513.6	54.19%	493.7	384.1	509.0	57.14%	489.3	380.7	(3.5)

*Note: \$ are presented in
millions*

Escalating Costs (and Under-Funding) for Retiree Health Care

Retiree Health Care General Fund ARC vs. Projected Payment Status Quo

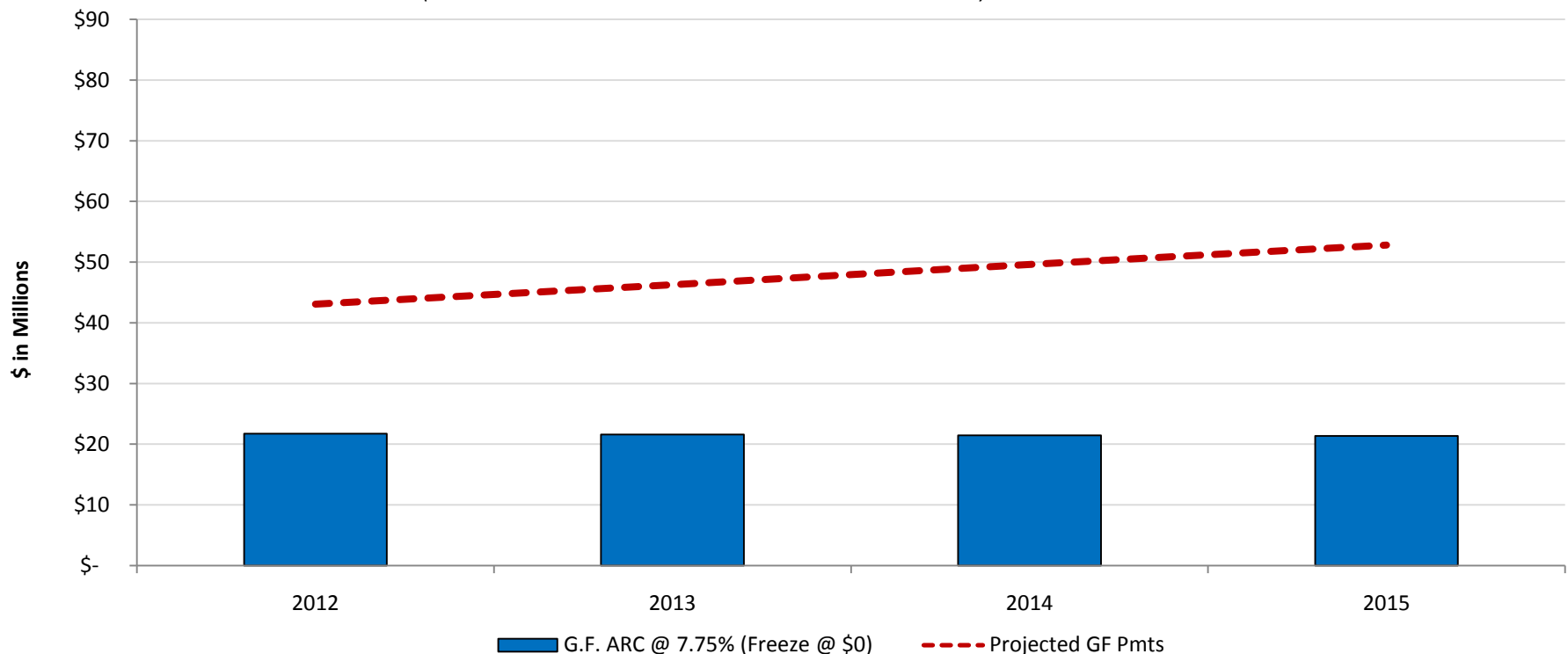
(Sources: Five Year Financial Outlook and Buck Consultants)



Escalating Costs (and Under-Funding) for Retiree Health Care

Retiree Health Care General Fund ARC vs. Projected Payment
Freeze @ \$0

(Sources: Five Year Financial Outlook and Buck Consultants)



10 Commitments

1. Accountability for Results
2. Open Government
3. Back to Basics: Clean and Safe Neighborhoods
4. Comprehensive Pension Reform
5. Reform City Salaries and Labor Contracts

10 Commitments

6. Fair and Open Competitive Bidding
7. Jobs-Friendly Policies
8. Rebuilding City Infrastructure
9. Regional Government Solutions
10. Leading by Example

Questions and Comments?